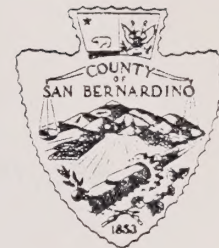


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INTER-OFFICE MEMO



DATE June 9, 1978
FROM EARL GOODWIN *Goodwin* Ext. 2018
County Administrative Officer
TO BOARD OF SUPERVISORS

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SUBJECT PROPOSITION 13

JUN 20 1978

UNIVERSITY OF CALIFORNIA

Passage of Proposition 13 has created great uncertainty for all local governments. The potential service impact on County government will be most acute because of the mandatory health, welfare, and public safety programs we provide under State and Federal laws and regulations. In many cases, even the level of service provided is required by State or Federal agencies.

Much of the uncertainty regarding possible lost funding and the extent to which the County can continue services to its 756,000 residents will probably be resolved over the next two months. Because of this, no final actions should be taken now on either the elimination of programs or the termination of employees. However, spending for almost all operations should be suspended until the County's cash position is stabilized, and there is an indication of possible State action.

The largest single element of uncertainty is the amount of property taxes which will be distributed to the various local governments. Until more is known, it can only be assumed that the limited funds will be allocated based on how they have been spent in the past. If this is a correct assessment, the County will probably have only \$29 million in property tax income next year compared to \$70.2 million in 1977-78. The following chart shows our estimated income and the potential revenue gap for next year due to the lost property tax.

POTENTIAL REVENUE GAP

1978-79 Estimated County Local Cost Operating Budget		\$135,201,365
Available Discretionary Income		
1% Property Tax	\$29,000,000	
1978-79 Non-Department Revenue	37,246,589	
Federal Antirecession Revenue	2,700,000	
1977-78 Surplus Estimate	10,500,000	
1978-79 Capital Improvement Carryover Revenue Sharing Funds*	7,000,000	
1978-79 Revenue Sharing Payment	<u>12,000,000</u>	
Total Available Income		<u>\$ 98,446,589</u>
Potential Revenue Gap		<u>36,754,776</u>
Add: 1978-79 Estimated Salary Increase Cost		<u>4,700,000</u>
Total Gap		\$ 41,454,776

*Some part is committed to finish projects now under way.

The second greatest uncertainty in implementing Proposition 13 is the fact that numerous issues must be resolved by the Legislature and possibly the courts before the Board can make final determinations on the future direction of County government. At least three key answers are needed before the end of August when the Board must adopt its 1978-79 budget and set the tax rates.

- The Legislature, and perhaps Congress, must decide which of their mandated programs can be continued at either present or curtailed levels.
- The Legislature must determine how property taxes will be allocated to finance county and other local governments.
- The courts may have to decide on the equity and effective date of the one percent property tax limitation.

The next two months cannot be spent just waiting for other levels of government to act. Although a substantial revision of State-County relationships in providing and

financing public services is almost certain, the County should examine our service priorities during this time.

It will not be possible to keep all services operating, even at reduced levels, in the face of a large, permanent reduction in total income. It will therefore require a careful examination of those programs which depend most heavily on property taxes to determine the effect on our citizens of any needed reductions. It may be that certain services paid from property taxes are now at the level which best serves residents. These can only be continued if other services are drastically curtailed or eliminated entirely. The probability is that there will need to be a wide range of curtailments and a few complete service eliminations.

ANALYSIS OF AVAILABLE INCOME

The preceeding chart outlined a total of \$98,446,589 in estimated 1978-79 discretionary income to finance ongoing operations. This is essentially divided into continuing income and one-time sources.

Continuing Income

There are several continuing sources of discretionary income other than property taxes which the Board has available to finance any County operation. The largest sources of this income are Sales Taxes, Franchises, Property Transfer Tax, Vehicle Code Fines, Motor Vehicle In-Lieu Taxes, Revenue Sharing payments, Federal Antirecessionary payments, Federal In-Lieu Taxes and Interest. The estimated total of these non-departmental revenues is \$51.9 million next year, an increase of \$4.7 million, or 9.9% over the amount budgeted for 1977-78.

One-Time Income

There are two major elements which are available on a one-time only basis and, if used in 1978-79 to finance ongoing services, will not be automatically available the following year. These total \$17 million and if used entirely for this year's problems will result in an additional \$17 million problem next year.

The first is Federal Revenue Sharing funds which were included in this year's budget for capital improvements but which are not actually spent or under contract as of this date. This amounts to approximately \$7,000,000. If the projects are not rebudgeted next year, some of this money may then be used to pay for other programs.

Another source of funds is the 1977-78 surplus which results from a combination of underspending in the current year and from greater than expected revenue receipts. The uncommitted surplus expected to be available to finance services on July 1 is \$10.5 million.

EXPENDITURE AND LOCAL COST REQUIREMENTS

Since February the departments, Agency Administrators and my staff have been reviewing the cost of continuing present services at a minimum or, in some cases, a reduced level. We have included a review of new legislative mandates, a few unavoidable workload increases, and the impact of inflation on continuing program costs.

This review has indicated that certain higher costs associated with current County programs offsets most of our revenue increases and the County is still left with a revenue gap of approximately \$41 million which must be resolved by the end of August.

As previously noted, actions of other governments and the Board will both be required to close this gap.

State Payments

Three major State/Federal programs presently require property tax support from the County. These programs are not controlled by the Board of Supervisors and have been repeatedly criticized by this Board and by other counties throughout the State as not being appropriate to finance from property taxes. The programs and their 1977-78 property tax cost are:

Medi-Cal	\$ 10,526,598
Social Security Supplemental Payments	4,246,415
Welfare Grants and Adminis- trative Costs	15,198,947
	<hr/>
Total	\$ 29,971,960

Some recognition of the inappropriateness of these costs on the property tax was given in SB 1 which removed the share of these programs from taxes paid by homeowners. Homeowner's property taxes in this County would be \$10.4 million less by having the State assume that cost as financed in SB 1,

Nosimilar relief was provided for owners of apartments or other commercial and industrial property. It is critical that San Bernardino County urge its legislative delegation and join with a Statewide CSAC effort to urge the entire Legislature and the Governor to immediately assume the entire cost of welfare programs previously property tax financed. Such action will reduce the potential curtailment of other County operated services to about \$11 million.

A lasting solution to an \$11 million gap can only be made through a reduction or elimination of services. Many services, however, are financed to some degree by State or Federal aid and have little or no property tax cost associated with them. Because of this, it will be necessary to concentrate on those programs that rely most heavily on local funds when deciding where reductions must be made. Local cost varies greatly among the different agencies as shown below.

1977-78 GENERAL FUND BUDGET (000 omitted)

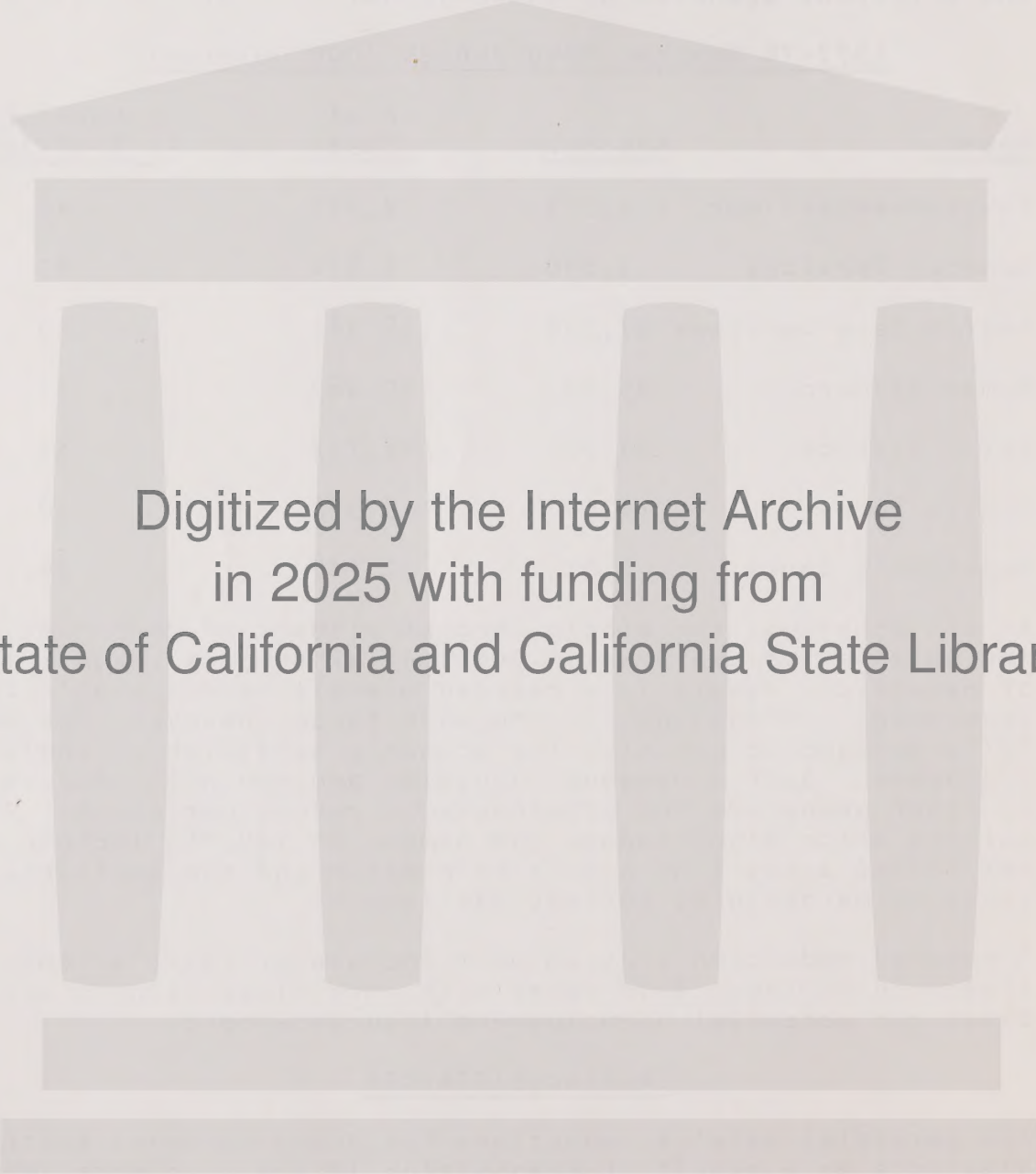
<u>Agency</u>	<u>Approp.</u>	<u>Local Cost</u>	<u>Local Cost As % of Approp.</u>
Environmental Impr.	\$ 6,379	\$ 2,961	46
General Services	5,890	3,811	65
Health Care Services	37,730	18,982	50
Human Resources	99,993	20,867	21
Law & Justice	53,930	45,712	85
Public Works	14,147	9,970	70
Non-Agency Depts.	12,931	12,109	94

In all programs, the single largest element of operating cost is the salaries of employees. Substantial program reductions will, of necessity, result in a reduced overall work force in County government. Reductions in the work force, however, can be carefully managed to minimize the economic hardships on individual employees. Such a managed reduction program will include layoffs if other means are not attainable to reduce our costs. Alternatives which might reduce the number of layoffs include such actions as a position attrition program and the avoidance of new costs by maintaining current pay levels.

A managed reduction program must include at least a temporary freeze on hiring. This saves cash, minimizes layoffs and reduces our potential unemployment insurance cost.

SPECIAL DISTRICTS

The potential service reductions for Board-governed special districts as a result of Proposition 13 are even more immediate because districts are much more heavily dependent on the property tax than is the rest of County government. In addition, many districts have little or no alternative financing capability.



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The major district categories and their reliance on property taxes are shown below:

<u>Type of District</u>	<u>Total Program</u>	<u>Property Tax Cost</u>	<u>% Property Tax</u>
Airports	\$ 761,209	\$ 598,861	79
Dams	1,387,208	1,068,917	77
Fire	10,671,768	6,424,780	60
Flood Control	15,974,148	7,627,951	48
Library	3,528,945	2,888,257	82
Parks	5,303,686	3,071,839	58
Sanitation	14,265,882	2,123,287	15
Street Lighting	1,100,015	807,900	73
Water	4,207,530	159,167	4
Other	756,155	17,420	2

Financing these services will be particularly difficult and the continuation of many in the form we know them will depend on the method used by the Legislature to allocate the limited property tax income.

THE NEED FOR A 60-DAY PLAN

While answers to the many uncertainties are developed over the next 60 days by the Legislature, there are several immediate steps which the Board can take to continue County services on an interim basis.

Immediate Cash To Keep County Government Functioning

Usually, the County adopts a budget in July and determines the amount of property taxes to be collected. Prior to the actual receipt of taxes in December, we customarily borrow from other funds in the County Treasury on the basis of our ability to repay from later tax receipts. As long as there is uncertainty about the amount of later tax receipts, we will be unable to use this device. Present cash must therefore cover expenses until tax amounts can be determined. To ensure that we will be able to pay obligations over the next 60 days, we must take every step possible to spend for only those items that cannot wait. I have already asked the Auditor and the Treasurer-Tax Collector to analyze our cash position and develop an interim cash flow plan.

In addition, the State has substantial cash reserves which might be loaned to local governments. Also, special districts will have acute cash needs and the County, if possible, should be prepared to assist them.

Avoid Cost Increases If At All Possible

Any actions which increase our rate of spending on an ongoing basis will result in increased reductions two months from now and possibly mean added layoffs. On July 1, represented employees are scheduled to receive an average 5% salary increase. This increases the size of the gap with the result that greater program curtailments will have to be made in August.

An agreement by the employees to defer the July 1 pay raise would help save jobs, preserve essential services and reduce the drain on the County's available funds. We expect to meet during June with employee organizations in discussions covering cost control and the impact of sizable potential layoffs.

Take Advantage Of Any Opportunity To Reduce Spending

To ensure our cash position, any action which can reduce spending between now and the time our final 1978-79 income is known is absolutely necessary. Management actions such as controlling overtime worked, holding vacant positions open, avoiding purchases which rebuild inventories and deferring equipment acquisition will all assist in preserving public services. Some of these actions may result in temporary reductions in the level of public services.

There Is A Need For Some Spending Authority

When the new fiscal year begins on July 1, some appropriation authority is needed to cover whatever spending will take place until a final budget is adopted. The current year's budget should be readopted to provide interim expenditure authorization.

Board deliberations on the final 1978-79 budget should be postponed until the latest date possible to assure that no premature service reductions are made. The latest possible date to begin the 10-day public budget hearings is August 18.

Public Understanding And Input Is Desirable

In keeping with the Board's practice to encourage public comment, a special effort should be made this year to solicit public input. At the time I send my recommendations for service curtailments to the Board in early August, it would be advisable to make a

summary of this information available to the public and interested civic groups for their information. With the assistance of Agency and Department Heads, I plan to prepare a summary report for wide distribution which describes any proposed service reductions.

RECOMMENDATIONS

1. Urge the State Legislature to take the following actions:
 - A. Assume State funding for all Social Security Supplements, Medi-Cal, and welfare aid and administrative costs previously paid from property taxes.
 - B. Adopt a distribution formula for property tax proceeds which recognizes mandatory service costs and the limited ability of county and special district governments to generate alternative revenues.
 - C. Allow the County to advance funds to Board-governed special districts and permit State funds to be similarly advanced.
2. Authorize the following immediate actions to ensure our financial solvency for the next 60 days.
 - A. Institute a complete hiring and promotion freeze and fill no vacant positions.
 - B. Instruct the Purchasing Agent to purchase only such amounts of goods as are absolutely necessary for the maintenance of basic services and to negotiate no price increases in any contract services.
 - C. Decline to award bids for construction projects as previously submitted and instruct the Public Works Agency Administrator to seek extensions of current quotations through August 31.
 - D. Instruct the County Administrative Officer to review all fees and service charges to determine potential revenue increases.
 - E. Request recognized employee organizations to meet and discuss the probable impact on employees of actions and future service reductions as well as the possibility of deferring any impending cost increases.
3. Readopt the 1977-78 Budget as the 1978-79 Proposed Budget and set August 18 as the date to begin public hearings on the 1978-79 Final Budget, and instruct the County Administrative Officer to present curtailment recommendations to the Board by that date.

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